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SIPDIS

BUSINESS SENSITIVE

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SUBJECT: COMMERCIAL DEVELOPMENTS IN SE TURKEY

1.(SBU-BUS SENS) Summary: The business mood in the southeast Turkey commercial community remains downbeat with deep concerns about cotton prices and persistently high unemployment typifying most commercial discussions. There is an element of hope voiced by some border provinces regarding future export opportunities to Iraq and Syria which is somewhat tempered by concerns about security in Iraq and as yet unclear outcomes in the Iraq reconstruction major bidding arena for which many southeast Turkish businesses aspire to be significant subcontract recipients. The EU is also interested in commercial development in the region, adding a new EU Information Center in Adana on January 14 to its existing EU Information Center in Gaziantep. End Summary.

Cotton (prices) are king - and erasing already thin margins

12. (SBU BUS) Recent conversations with both major Adana and Gaziantep textile producers, such as BOSSA and SANKO, reveal broad concern about very high cotton raw material prices brought on by major Chinese buying. For those companies whose leading textile outlets are in the U.S., the concurrent drop in the value of dollar-denominated revenues is only squeezing margins more and even major textile producers in the region already are predicting, at best, break-even to losing years in 2004. A leading cotton importer commented to PO recently that the sudden recent spike in cotton raw materials was unanticipated by most -even major - textile producers and was hitting regional textile producers' bottom lines very hard. PO discussions with major producers corroborate this importer observation. The major importer also observed that Chinese purchases of synthetic textile raw material is also causing similar consternation in the non-cotton textile producing sector in Southeast Turkey. He summed up the situation by saying, "four-fifths of the textile people (in the southeast) are scared by the raw material price increases and the other fifth are just plain fatalistic about where the textile market is headed."

Gazing toward border trade for economic renewal

13. (SBU SUS SENS) Municipalities and chambers of commerce and industry throughout southeast Turkey are concerned about persistent high unemployment and lack of job creation, appealing for special treatment in Iraq reconstruction business because of perceived losses from the last decade of sanctions imposition on Iraq. Business leaders make similar appeals, but grudgingly seem to accept explanations about transparency and open competition in the Iraq reconstruction process sooner than their local government counterparts.

4.(SBU BUS SENS) Business leaders in Adana, Mersin, Iskenderun, Antakya and Gaziantep have voiced great interest in developments in Iraq reconstruction contracting and some disappointment upon realization that few, if any, of them are sufficiently large to qualify for the major contracts on the immediate Iraq reconstruction. Many, however, are looking forward to public award of the major contracts so that they can strategize to attract significant subcontract work. Others, while still very interested in gaining subcontracts, seem to be more blindly relying on southeast Turkey's

proximity to Iraq or unspecified "natural advantages for Turkish business in Iraq" to deliver work to them.

Some Turkish companies already exploring footholds in Iraq

5.(SBU SUS SENS) Consulate personnel have met with about a half dozen contacts in the last month who are already doing work in Iraq or setting up offices to perform contracts and/or find Iraqi partners for future joint ventures. Some of these contacts are performing limited contracts for the U.S. military, such as providing a motor pool in Kirkuk, or catering for a military unit. Most of these business activities seem perceived as test projects by the Turkish companies, many of whom have experience in military contracting on Incirlik air base. The Adana Chamber of Commerce claims that two million dollars of commerce have taken place between Adana and Iraq this year, but details on that trade flow have not been forthcoming.

6.(SBU BUS SENS) Other companies and chambers of commerce are thinking longer-term and setting up offices in Iraq to host Turks looking for businesses and contracts to serve as long-term business relationships. The Sabanci Group soon will set up in or near Erbil while the Adana Chamber of Commerce is looking to establish a "guest house for businessmen" in or near Kirkuk. Other Gaziantep and Silopi consulate contacts are already setting up small textile production businesses and investing in small real estate ventures and construction, with local Iraqis, as far south as Mosul. These Turkish textile producers are asking whether there will be quotas on textiles produced in Iraq that they might wish to sell in the U.S., while the real estate/construction investors are interested in OPIC coverage of their assets sent to Iraq for projects.

Talking seriously about Syria

7.(SBU BUS SENS) Since even before the recent Assad visit to Ankara, local southeast Turkey press has buzzed with news of Syrian and Turkish border trade meetings. Most have centered on visits to regional chambers of commerce by the Aleppo chamber of commerce. Interest in increased border trade seems highest in Hatay, Gaziantep, Kilis, and Adana provinces. Still, despite the talk of future increased trade and sincere mutual Turkish-Syrian interest in its development, few contracts seem to have materialized. The effort seems to first aim to legitimize ongoing grey area cross-border traffic as a first step toward expansion into new business sectors. To this end, the Syrian trade delegation in Gaziantep will become a consulate soon and the Aleppo Chamber of Commerce will start "sister chamber" relationships in Adana, Gaziantep and Antakya.

8.(SBU BUS SENS) Additionally, (presumably) wealthy Syrian consumption of (relative) Turkish luxury goods is apparent throughout Hatay, where Mercedes with heavily tinted windows and Arabic license plates, are frequent sights and Adana's small mall, where Arabic is now a frequently overheard language at dress shops, perfume counters and toy stores, as well as the Real and Carrefour department stores. The Real has even set up a diplomatic exceptions window to cater to these Syrian customers who seem to have diplomatic credentials as the information at the new counter is in Arabic. (N.B. The U.S. Consulate is the only diplomatic mission in southeast Turkey other than the newly-opening three-person Syrian consulate in Gaziantep, two hours drive away with a similar small mall.)

EU interested, but in what?

9.(SBU BUS SENS) The EU is also interested in commercial development in the region, adding a

new EU Information Center in Adana on January 14 to its existing EU Information Center in Gaziantep. Consulate personnel attended the office's opening to find that no EU personnel were in attendance at the opening. Turkish organizers were mildly disappointed about the lack of EU personnel involvement, but explained that EU interest this week was in EU President Koc's trip to Ankara. According to several of the offices' organizers, the Adana office is one of the eight offices approved for Turkey by the EU. They further explained that eleven offices were proposed by Turkish organizers, but the EU refused to support the three proposals which asked to be coordinated through the Turkish government in Ankara. In fact, several Turkish organizers found the desirability of "a direct line to Brussels through the office" and the advantage that they thought such contact could have for Adana in the long-term. They noted, however, that the "direct line" came at a cost, at least for now in principle, because EU organizers had declined to provide much information technology and other explanatory information about the EU and its structures, explaining that EU interest in the office was limited to collecting commercial information on southeast Turkish small and medium size enterprises (SME's) for EU commercial assessments. Turkish event organizers said that they were also chagrined to learn that, by EU commercial standards, there are few, if any, non-SME's in Turkey.

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